

City of Sandusky
Sanilac County, Michigan
Annual Financial Statements
and
Auditors' Report
February 29, 2008

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City of Sandusky
List of Elected and Appointed Officials
February 29, 2008

City Council

Thomas Lukshaitis - Mayor
Steve Polewach - Councilperson
Keith Costine - Councilperson
Rick Cook - Councilperson
Virginia Bissett - Councilperson
Sandra Barr - Councilperson
Marguerite McNiven - Councilperson

Other Officers and Officials

Lou LaPonsie - City Manager
Laurie Thompson - City Clerk
Keith Phillips - Treasurer

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Sandusky
Sandusky, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 29, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky as of February 29, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2008 on our consideration of the City of Sandusky internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sandusky's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
August 7, 2008

City of Sandusky
Management's Discussion and Analysis
February 29, 2008

Introduction

Our discussion and analysis of City of Sandusky, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended February 28, 2008. It should be read in conjunction with the City's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets (on page 4-1) and the Statement of Activities (on page 4-2) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 4-3. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The City's combined net assets increased 17% from a year ago – increasing from \$ 10.1 million to \$ 11.8 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$.5 million during the year, primarily as a result of street improvements that were financed with grants and local tax dollars. The business-type activities experienced a \$ 1.2 million increase in net assets.

City of Sandusky
Management's Discussion and Analysis
February 29, 2008

Following is an analysis of the major components of the net assets of the City as of February 28, 2008.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets						
Other assets	\$ 3,422,883	\$ 3,536,180	\$ 1,531,727	\$ 1,447,894	\$ 4,954,610	\$ 4,984,074
Capital assets	<u>3,156,001</u>	<u>2,745,864</u>	<u>12,976,605</u>	<u>12,391,363</u>	<u>16,132,606</u>	<u>15,137,227</u>
Total assets	<u>6,578,884</u>	<u>6,282,044</u>	<u>14,508,332</u>	<u>13,839,257</u>	<u>21,087,216</u>	<u>20,121,301</u>
Liabilities						
Other liabilities	108,969	354,279	177,702	719,141	286,671	1,073,420
Noncurrent liabilities	<u>1,139,199</u>	<u>1,135,534</u>	<u>7,841,655</u>	<u>7,843,269</u>	<u>8,980,854</u>	<u>8,978,803</u>
Total liabilities	<u>1,248,168</u>	<u>1,489,813</u>	<u>8,019,357</u>	<u>8,562,410</u>	<u>9,267,525</u>	<u>10,052,223</u>
Net assets						
Invested in capital assets -						
Net of related debt	2,183,737	1,551,274	5,274,713	4,554,857	7,458,450	6,106,131
Restricted	78,718	63,898	245,093	234,249	323,811	298,147
Unrestricted	<u>3,068,261</u>	<u>3,177,059</u>	<u>969,169</u>	<u>487,741</u>	<u>4,037,430</u>	<u>3,664,800</u>
Total net assets	<u>\$ 5,330,716</u>	<u>\$ 4,792,231</u>	<u>\$ 6,488,975</u>	<u>\$ 5,276,847</u>	<u>\$ 11,819,691</u>	<u>\$10,069,078</u>

City of Sandusky
Management's Discussion and Analysis
February 29, 2008

The following table shows the changes in net assets as of the current date.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues						
Charges for services	\$ 369,643	\$ 361,215	\$ 1,431,235	\$ 1,403,587	\$ 1,800,878	\$ 1,764,802
Operating grants and contributions	730,980	261,874	-	-	730,980	261,874
Capital grants and contributions	379,936	827,097	861,916	1,261,396	1,241,852	2,088,493
General revenues						
Property taxes	1,431,926	1,405,818	-	-	1,431,926	1,405,818
State shared revenue	284,765	431,928	-	-	284,765	431,928
Unrestricted investment income	131,408	117,661	45,946	50,090	177,354	167,751
Gain on sale of capital assets	208	-	-	-	208	-
Miscellaneous	25,452	29,867	41,277	21,590	66,729	51,457
Transfers	(311,401)	-	311,401	-	-	-
Total revenues	<u>3,042,917</u>	<u>3,435,460</u>	<u>2,691,775</u>	<u>2,736,663</u>	<u>5,734,692</u>	<u>6,172,123</u>
Program expenses						
General government	623,665	473,430	-	-	623,665	473,430
Public safety	635,398	639,649	-	-	635,398	639,649
Public works	772,713	734,560	-	-	772,713	734,560
Health and welfare	295,451	319,858	-	-	295,451	319,858
Community and economic development	2,511	955	-	-	2,511	955
Recreation and culture	107,618	109,668	-	-	107,618	109,668
Interest on long-term debt	67,076	78,745	-	-	67,076	78,745
Sewer	-	-	967,516	864,739	967,516	864,739
Water	-	-	512,131	451,990	512,131	451,990
Total expenses	<u>2,504,432</u>	<u>2,356,865</u>	<u>1,479,647</u>	<u>1,316,729</u>	<u>3,984,079</u>	<u>3,673,594</u>
Change in net assets	<u>\$ 538,485</u>	<u>\$ 1,078,595</u>	<u>\$ 1,212,128</u>	<u>\$ 1,419,934</u>	<u>\$ 1,750,613</u>	<u>\$ 2,498,529</u>

City of Sandusky
Management's Discussion and Analysis
February 29, 2008

Governmental Activities

The City's total governmental activities revenues were \$3,042,917. This is an 11% decrease over last year. The decrease is primarily related to the reduction in state shared revenue and grants received.

The City's total governmental activities expenses were \$2,504,432. This is a 6% increase over last year.

Business-type Activities

The City's total business-type activities revenues were \$2,691,775. This is a 2% decrease over last year. The decrease is primarily related to the major projects financed by Rural Development being completed during the year.

The City's total business-type activities expenses were \$1,479,647. This is a 12% increase over last year.

The sewer fund operations remained consistent with the prior year. There were no major changes to sewer rates and no major sewer system improvement projects started in the current year. There are no major changes in sewer rates anticipated in the next budget year.

The water fund operations remained consistent with the prior year. There were no major changes to water rates and no major water system improvement projects started in the current year. There are no major changes in water rates anticipated in the next budget year.

The City's Funds

Our analysis of the City's major funds begins on page 4-3, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as water and sewer service, roadwork, storm sewers and sidewalks. The City's major funds for 2007-08 include the General, Major Street, Local Street, Senior Citizens Housing, Sewer and Water Funds.

The General Fund pays for most of the City's governmental services and is financed by the general operating millage and state revenue sharing. The most significant services are police protection, which incurred expenditures of \$489,299 in 2007-08. There are no major changes in revenue or projects anticipated in the next year budget.

City of Sandusky
Management's Discussion and Analysis
February 29, 2008

The Major Street Fund is funded by state and local revenue provided to cover maintenance costs associated with the major streets within the City. Construction is planned in the next year but specifics are not finalized. Reconstruction of Argyle Street was completed in 07-08 using grant funds and local tax funding.

The Local Street Fund is funded by state and local revenue provided to cover maintenance costs associated with the local streets within the City. Construction is planned in the next year but specifics are not finalized.

The Senior Citizens Housing Fund is funded by federal grants and rental income from residents. The construction of the new The Senior Citizens Housing Fund is funded by federal grants and rental income from residents. The construction of the new apartments for senior citizens on the east side of town was completed and ready for occupancy in fiscal year 2008.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget. The significant budget changes included the following:

- Completion of the WWTP

Capital Asset and Debt Administration

At the end of fiscal year 2007-08, the City had \$16,132,606 in a broad range of capital assets, including buildings, police equipment and water and sewer lines.

The City also has governmental activity long-term debt of \$698,907 in installment purchase agreements, \$250,000 in general obligation bonds, \$23,357 in capital leases, and \$166,935 in compensated absences. Debt attributable to business-type activities includes \$7,701,892 in bonds payable and \$139,763 in compensated absences.

Economic Factors and Next Year's Budgets and Rates

The State's economy continues to be an issue. The 2008-09 budget was put together keeping in mind inflationary increases and soaring gasoline prices. Sewer and water rates will be evaluated to determine the need for price increases for the 2009 calendar year. Property tax millage rates will remain the same as the prior year.

City of Sandusky
Management's Discussion and Analysis
February 29, 2008

Contacting the Government

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City's Finance Director.

City of Sandusky
Statement of Net Assets
February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,974,307	\$ 826,107	\$ 3,800,414
Investments	150,222	-	150,222
Receivables			
Taxes	166,474	-	166,474
Customers	25,376	391,021	416,397
Accrued interest and other	16,300	-	16,300
Due from other units of government	122,110	-	122,110
Internal balances	(69,506)	69,506	-
Restricted assets			
Cash and cash equivalents	37,600	245,093	282,693
Capital assets not being depreciated	688,873	-	688,873
Capital assets, net of accumulated depreciation	2,467,128	12,976,605	15,443,733
Total assets	6,578,884	14,508,332	21,087,216
Liabilities			
Accounts payable	48,477	18,036	66,513
Accrued and other liabilities	60,492	159,666	220,158
Noncurrent liabilities			
Due within one year	204,173	141,614	345,787
Due in more than one year	935,026	7,700,041	8,635,067
Total liabilities	1,248,168	8,019,357	9,267,525
Net assets			
Invested in capital assets, net of related debt	2,183,737	5,274,713	7,458,450
Restricted for:			
Drug forfeiture	2,568	-	2,568
Debt	-	245,093	245,093
Perpetual care	76,150	-	76,150
Unrestricted	3,068,261	969,169	4,037,430
Total net assets	\$ 5,330,716	\$ 6,488,975	\$ 11,819,691

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 29, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 623,665	\$ 39,512	\$ 167,935	\$ -	\$ (416,218)	\$ -	\$ (416,218)
Public safety	635,398	22,285	-	-	(613,113)	-	(613,113)
Public works	772,713	139,691	309,701	216,297	(107,024)	-	(107,024)
Health and welfare	295,451	145,678	251,509	-	101,736	-	101,736
Community and economic development	2,511	150	-	-	(2,361)	-	(2,361)
Recreation and culture	107,618	22,327	1,835	163,639	80,183	-	80,183
Interest on long-term debt	67,076	-	-	-	(67,076)	-	(67,076)
Total governmental activities	2,504,432	369,643	730,980	379,936	(1,023,873)	-	(1,023,873)
Business-type activities							
Sewer	967,516	865,002	-	840,828	-	738,314	738,314
Water	512,131	566,233	-	21,088	-	75,190	75,190
Total business-type activities	1,479,647	1,431,235	-	861,916	-	813,504	813,504
Total primary government	\$ 3,984,079	\$ 1,800,878	\$ 730,980	\$ 1,241,852	(1,023,873)	813,504	(210,369)
General revenues							
Property taxes					1,431,926	-	1,431,926
State shared revenue					284,765	-	284,765
Unrestricted investment earnings					131,408	45,946	177,354
Gain on sale of capital assets					208	-	208
Miscellaneous					25,452	41,277	66,729
Transfers					(311,401)	311,401	-
Total general revenues and transfers					1,562,358	398,624	1,960,982
Change in net assets					538,485	1,212,128	1,750,613
Net assets - beginning of year					4,792,231	5,276,847	10,069,078
Net assets - end of year					\$ 5,330,716	\$ 6,488,975	\$ 11,819,691

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Balance Sheet
February 29, 2008

		Special Revenue Funds			Other	Total
	General	Major Street	Local Street	Senior Citizens Housing	Governmental Funds	Governmental Funds
Assets						
Cash and cash equivalents	\$ 2,176,065	\$ 293,837	\$ 91,755	\$ 98,543	\$ 97,313	\$ 2,757,513
Investments	150,222	-	-	-	-	150,222
Receivables						
Taxes	143,996	-	-	-	-	143,996
Customers	25,376	-	-	-	-	25,376
Accrued interest and other	16,223	-	-	77	-	16,300
Due from other units of government	87,533	24,450	10,127	-	-	122,110
Total assets	\$ 2,599,415	\$ 318,287	\$ 101,882	\$ 98,620	\$ 97,313	\$ 3,215,517
Liabilities						
Accounts payable	\$ 16,701	\$ 973	\$ 9,111	\$ 14,129	\$ 2,564	\$ 43,478
Accrued and other liabilities	20,090	1,481	640	11,738	294	34,243
Deferred revenue	1,435,363	-	-	-	-	1,435,363
Total liabilities	1,472,154	2,454	9,751	25,867	2,858	1,513,084
Fund balances						
Reserved for:						
Drug forfeiture	2,568	-	-	-	-	2,568
Perpetual care	-	-	-	-	76,150	76,150
Unreserved						
Designated for:						
Cemetery	12,700	-	-	-	-	12,700
City Hall	26,856	-	-	-	-	26,856
Industrial Park	2,048	-	-	-	-	2,048
Recreation	22,918	-	-	-	-	22,918
Police	27,697	-	-	-	-	27,697
Senior citizens building	134,321	-	-	-	-	134,321
Unreserved, reported in:						
General fund	898,153	-	-	-	-	898,153
Special revenue funds	-	315,833	92,131	72,753	18,305	499,022
Total fund balances	1,127,261	315,833	92,131	72,753	94,455	1,702,433
Total liabilities and fund balances	\$ 2,599,415	\$ 318,287	\$ 101,882	\$ 98,620	\$ 97,313	\$ 3,215,517

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 29, 2008

Total fund balances for governmental funds	\$ 1,702,433
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,894,627
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,435,363
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(26,000)
Compensated absences	(166,935)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(948,907)
Internal service funds are included as part of governmental activities.	<u>440,135</u>
Net assets of governmental activities	<u>\$ 5,330,716</u>

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 29, 2008

	Special Revenue Funds				Other Governmental Funds	Governmental Funds Total
	General	Major Street	Local Street	Senior Citizens Housing		
Revenues						
Taxes	\$ 1,399,758	\$ -	\$ -	\$ -	\$ -	\$ 1,399,758
Licenses and permits	3,457	-	-	-	-	3,457
Federal grants	167,935	-	-	251,509	-	419,444
State revenue sharing	284,765	-	-	-	-	284,765
Other state grants	1,378	468,167	56,453	-	-	525,998
Local contributions	4,000	91,838	71,801	-	-	167,639
Charges for services	148,407	-	-	-	22,703	171,110
Fines and forfeitures	378	-	-	-	-	378
Interest income	87,446	14,371	8,079	6,543	4,741	121,180
Rental income	18,168	-	-	147,513	21,430	187,111
Other revenue	25,765	5,096	-	-	13	30,874
Total revenues	2,141,457	579,472	136,333	405,565	48,887	3,311,714
Expenditures						
Current						
General government	624,417	-	-	-	-	624,417
Public safety	577,815	-	-	-	-	577,815
Public works	394,185	123,263	155,725	-	58,470	731,643
Health and welfare	-	-	-	295,451	-	295,451
Community and economic development	2,511	-	-	-	-	2,511
Recreation and culture	107,699	-	-	-	-	107,699
Capital outlay	98,243	380,546	71,359	-	1,051	551,199
Debt service						
Principal retirement	65,432	-	-	-	146,421	211,853
Interest and fiscal charges	34,602	-	-	-	36,428	71,030
Total expenditures	1,904,904	503,809	227,084	295,451	242,370	3,173,618
Excess (deficiency) of revenues over expenditures	236,553	75,663	(90,751)	110,114	(193,483)	138,096
Other financing sources (uses)						
Transfers in	-	-	124,140	-	207,683	331,823
Transfers out	(448,286)	(35,250)	-	(159,688)	-	(643,224)
Sale of fixed assets	208	-	-	-	-	208
Total other financing sources and uses	(448,078)	(35,250)	124,140	(159,688)	207,683	(311,193)
Net change in fund balance	(211,525)	40,413	33,389	(49,574)	14,200	(173,097)
Fund balance - beginning of year	1,338,786	275,420	58,742	122,327	80,255	1,875,530
Fund balance - end of year	\$ 1,127,261	\$ 315,833	\$ 92,131	\$ 72,753	\$ 94,455	\$ 1,702,433

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended February 29, 2008

Net change in fund balances - total governmental funds \$ (173,097)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(91,401)
Capital outlay	530,497

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

Property taxes	32,168
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Expenses are recorded when incurred in the statement of activities

Accrued interest	6,000
Compensated absences	(3,665)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Repayments of long-term debt	211,853
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Internal service funds are also included as governmental activities	<u>26,130</u>
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Change in net assets of governmental activities	<u>\$ 538,485</u>
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See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 29, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Fund
Assets				
Current assets				
Cash and cash equivalents	\$ 517,357	\$ 308,750	\$ 826,107	\$ 216,794
Receivables				
Customers	249,610	141,411	391,021	-
Due from other funds	15,825	25,755	41,580	-
Total current assets	782,792	475,916	1,258,708	216,794
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	245,093	245,093	37,600
Capital assets, net of accumulated depreciation	9,879,460	3,097,145	12,976,605	261,374
Total noncurrent assets	9,879,460	3,342,238	13,221,698	298,974
Total assets	10,662,252	3,818,154	14,480,406	515,768
Liabilities				
Current liabilities				
Accounts payable	13,427	4,609	18,036	4,999
Accrued and other liabilities	117,360	42,306	159,666	249
Due to other funds	19,102	-	19,102	-
Current portion of noncurrent liabilities	57,000	84,614	141,614	11,496
Total current liabilities	206,889	131,529	338,418	16,744

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 29, 2008

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Long-term debt net of current portion	\$ 5,295,671	\$ 2,404,370	\$ 7,700,041	\$ 11,861
Total liabilities	<u>5,502,560</u>	<u>2,535,899</u>	<u>8,038,459</u>	<u>28,605</u>
Net assets				
Invested in capital assets, net of related debt	4,647,460	627,253	5,274,713	238,017
Restricted for:				
Debt	-	245,093	245,093	37,600
Unrestricted	<u>512,232</u>	<u>409,909</u>	<u>922,141</u>	<u>211,546</u>
Total net assets	<u><u>\$ 5,159,692</u></u>	<u><u>\$ 1,282,255</u></u>	<u>6,441,947</u>	<u><u>\$ 487,163</u></u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>47,028</u>	
Net assets of business-type activities			<u><u>\$ 6,488,975</u></u>	

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 29, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Fund
Operating revenue				
Customer fees	\$ 848,425	\$ 566,233	\$ 1,414,658	\$ -
Billings to other funds	-	-	-	121,819
Other revenue	20,090	21,187	41,277	3,425
Total operating revenue	868,515	587,420	1,455,935	125,244
Operating expenses				
Personnel services	366,179	165,929	532,108	18,272
Supplies	48,153	14,435	62,588	27,137
Contractual services	25,472	9,249	34,721	650
Utilities	100,003	26,240	126,243	-
Repairs and maintenance	17,403	56,091	73,494	12,460
Other expenses	19,347	46,987	66,334	10,898
Depreciation	174,327	81,259	255,586	28,959
Total operating expenses	750,884	400,190	1,151,074	98,376
Operating income	117,631	187,230	304,861	26,868

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 29, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Fund
Nonoperating revenue (expenses)				
Interest income	\$ 22,627	\$ 23,319	\$ 45,946	\$ 10,228
Interest expense	<u>(216,954)</u>	<u>(120,539)</u>	<u>(337,493)</u>	<u>(2,046)</u>
Total nonoperating revenues (expenses)	<u>(194,327)</u>	<u>(97,220)</u>	<u>(291,547)</u>	<u>8,182</u>
Income before contributions and transfers out	(76,696)	90,010	13,314	35,050
Capital contributions - federal	840,828	-	840,828	-
Capital contributions - other	16,577	21,088	37,665	
Transfers in	<u>105,331</u>	<u>206,070</u>	<u>311,401</u>	<u>-</u>
Change in net assets	886,040	317,168	1,203,208	35,050
Net assets - beginning of year	<u>4,273,652</u>	<u>965,087</u>		<u>452,113</u>
Net assets - end of year	<u>\$ 5,159,692</u>	<u>\$ 1,282,255</u>		<u>\$ 487,163</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			<u>8,920</u>	
Change in net assets of business-type activities			<u><u>\$ 1,212,128</u></u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 29, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 1,305,801	\$ 581,568	\$ 1,887,369	\$ 3,425
Receipts from interfund users	-	-	-	121,819
Payments to other funds	-	(6,200)	(6,200)	-
Payments to suppliers	(610,889)	(118,834)	(729,723)	(48,156)
Payments to employees	(366,179)	(165,929)	(532,108)	(18,272)
Payments for interfund services used	(1,455)	(39,027)	(40,482)	-
Net cash provided by operating activities	<u>327,278</u>	<u>251,578</u>	<u>578,856</u>	<u>58,816</u>
Cash flows from noncapital financing activities				
Transfer from other funds	<u>105,331</u>	<u>206,070</u>	<u>311,401</u>	<u>-</u>
Cash flows from capital and related financing activities				
Capital contributions	857,405	21,088	878,493	-
Advance repayments from other funds	(105,331)	(295,994)	(401,325)	-
Purchases/construction of capital assets	(840,828)	-	(840,828)	-
Principal and interest paid on long-term debt	(273,748)	(199,973)	(473,721)	(12,519)
Net cash used by capital and related financing activities	<u>(362,502)</u>	<u>(474,879)</u>	<u>(837,381)</u>	<u>(12,519)</u>
Cash flows from investing activities				
Interest received	<u>22,627</u>	<u>23,319</u>	<u>45,946</u>	<u>10,228</u>
Net increase in cash and cash equivalents	92,734	6,088	98,822	56,525
Cash and cash equivalents - beginning of year	<u>424,623</u>	<u>547,755</u>	<u>972,378</u>	<u>197,869</u>
Cash and cash equivalents - end of year	<u>\$ 517,357</u>	<u>\$ 553,843</u>	<u>\$ 1,071,200</u>	<u>\$ 254,394</u>

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 29, 2008

	<u>Enterprise Funds</u>			<u>Internal</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Service Fund</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 117,631	\$ 187,230	\$ 304,861	\$ 26,868
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	174,327	81,259	255,586	28,959
Changes in assets and liabilities				
Receivables (net)	(30,739)	(5,852)	(36,591)	-
Due from other units of government	468,025	-	468,025	-
Accounts payable	(506,953)	(1,373)	(508,326)	3,265
Accrued and other liabilities	104,987	(3,486)	101,501	(276)
Due to other funds	-	(6,200)	(6,200)	-
Net cash provided by operating activities	<u><u>\$ 327,278</u></u>	<u><u>\$ 251,578</u></u>	<u><u>\$ 578,856</u></u>	<u><u>\$ 58,816</u></u>

City of Sandusky
Fiduciary Funds
Statement of Net Assets
February 29, 2008

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 184,112	\$ 41,499
Investments	73,126	-
Receivables		
Accrued interest and other	13	-
	<u>257,251</u>	<u>\$ 41,499</u>
Liabilities		
Due to other funds	22,478	\$ -
Due to other units of government	<u>-</u>	<u>41,499</u>
	<u>22,478</u>	<u>\$ 41,499</u>
Net assets		
Held in trust for pension benefits and other purposes	<u>\$ 234,773</u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Changes in Net Assets
Year Ended February 29, 2008

	Pension and Other Employee Benefit <u>Trust Funds</u>
Additions	
Contributions	
Employer	\$ 34,600
Investment earnings	
Interest	<u>9,590</u>
Change in net assets	44,190
Net assets - beginning of year	<u>190,583</u>
Net assets - end of year	<u>\$ 234,773</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Notes to Financial Statements
February 29, 2008

Note 1 - Summary of Significant Accounting Policies

Reporting entity

City of Sandusky is governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City has no component units.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds,

proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be

City of Sandusky
Notes to Financial Statements
February 29, 2008

susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Senior Citizens Housing Fund accounts for the operation of the senior citizens housing unit owned by the City.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Permanent Fund accounts for perpetual cemetery resources and expenditures.

The Debt Service Funds accounts for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

Internal Service Funds accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for pension and other post-employment benefit payments to qualified employees.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these

City of Sandusky
Notes to Financial Statements
February 29, 2008

charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the government totaled \$71,962,574, on which ad valorem taxes consisted of 19.5 mills for operating purposes. This resulted in \$1,403,265 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash and cash equivalents.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets for land, site improvements, buildings, and building improvements of more than \$10,000 and equipment with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The City began recording governmental infrastructure constructed on or after March 1, 2003.

City of Sandusky
Notes to Financial Statements
February 29, 2008

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 50 years
Building improvements	5 to 25 years
Water and sewer lines	40 years
Vehicles	3 to 10 years
Machinery and equipment	5 to 20 years

Compensated absences – In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The vacation policy no longer allows for the carryover of unused days. Days accumulated prior to the change in policy were capped and continue to be available. The dollar amount for vested rights has been accrued in the governmental-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to February 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

City of Sandusky
Notes to Financial Statements
February 29, 2008

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. After the budget is adopted, any revisions to revenues or expenditures must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

	Final Budget	Actual	Variance
General Fund			
General government	\$ 480,105	\$ 624,417	\$ 144,312
Debt service	93,020	100,034	7,014
Transfers out	184,213	448,286	264,073
Local Street			
Capital outlay	70,000	71,359	1,359
Senior Citizens Housing			
Health and welfare	281,223	295,451	14,228

Note 3 - Deposits and Investments

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents
Governmental activities	\$ 2,974,307	\$ 150,222	\$ 37,600
Business-type activities	826,107	-	245,093
Total primary government	3,800,414	150,222	282,693
Fiduciary funds	225,611	73,126	-
Total	\$ 4,026,025	\$ 223,348	\$ 282,693

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 4,232,829	\$ 254,663
Investments in securities, mutual funds and similar vehicles	-	44,074
Petty cash and cash on hand	500	-
	<u>\$ 4,233,329</u>	<u>\$ 298,737</u>

As of year end, the government had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
American Life Annuity	\$ 8,082		Unrated	
Scudder Balanced Fd - A	6,763	Daily	Unrated	
Scudder High Income Fd - A	<u>29,229</u>	Daily	B	Morningstar
	<u>\$ 44,074</u>			

The investments are held in a pension plan administered by Midwest Pension Actuaries, Inc.

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan

City of Sandusky
Notes to Financial Statements
February 29, 2008

associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$4,398,860 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension trust fund is held by an outside party and is insured.

Note 4 - Receivables and Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Primary government	<u>Unavailable</u>
Property taxes	<u>\$ 1,435,363</u>

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 645,900	\$ 42,973	\$ -	\$ 688,873
Construction in progress	803,143	-	803,143	-
Total capital assets not being depreciated	1,449,043	42,973	803,143	688,873
Capital assets being depreciated				
Land improvements	336,120	35,618	-	371,738
Infrastructure	178,636	479,252	-	657,888
Buildings, additions and improvements	475,177	775,797	-	1,250,974
Machinery and equipment	660,097	-	-	660,097
Vehicles	360,967	-	45,000	315,967
Total capital assets being depreciated	2,010,997	1,290,667	45,000	3,256,664
Less accumulated depreciation for				
Land improvements	11,222	16,537	-	27,759
Infrastructure	21,942	26,973	-	48,915
Buildings, additions and improvements	33,793	19,265	-	53,058
Machinery and equipment	314,600	47,277	-	361,877
Vehicles	332,619	10,308	45,000	297,927
Total accumulated depreciation	714,176	120,360	45,000	789,536
Net capital assets being depreciated	1,296,821	1,170,307	-	2,467,128
Governmental activities capital assets, net	\$ 2,745,864	\$ 1,213,280	\$ 803,143	\$ 3,156,001

City of Sandusky
Notes to Financial Statements
February 29, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 6,540,873	\$ -	\$ 6,540,873	\$ -
Capital assets being depreciated				
Machinery and equipment	271,325	70,226	-	341,551
Vehicles	6,268	-	-	6,268
Water system	3,787,960	-	-	3,787,960
Sewer system	4,831,036	7,311,475	-	12,142,511
Total capital assets being depreciated	8,896,589	7,381,701	-	16,278,290
Less accumulated depreciation for				
Machinery and equipment	209,038	14,183	-	223,221
Vehicles	6,268	-	-	6,268
Water system	609,556	81,259	-	690,815
Sewer system	2,221,237	160,144	-	2,381,381
Total accumulated depreciation	3,046,099	255,586	-	3,301,685
Net capital assets being depreciated	5,850,490	7,126,115	-	12,976,605
Business-type capital assets, net	\$ 12,391,363	\$ 7,126,115	\$ 6,540,873	\$ 12,976,605

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
Public safety	\$ 57,583
Public works	33,818
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	28,959
Total governmental activities	120,360
Business-type activities	
Sewer	174,327
Water	81,259
Total business-type activities	255,586
Total primary government	\$ 375,946

Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
Sewer	Employees Sick Pay	\$ 15,825
Water	Employees Sick Pay	6,653
Water	Sewer	19,102
		<u>\$ 41,580</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General	Local Street	\$ 88,890
General	Airport	47,435
General	Cemetery	560
General	Sewer	105,331
General	Water	206,070
Major Street	Local Street	35,250
Senior Citizens	Senior Citizens Debt	159,688
		<u>\$ 643,224</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. In addition, transfers are used to move unrestricted senior

City of Sandusky
Notes to Financial Statements
February 29, 2008

citizens fund revenue to finance debt that must be accounted for in the debt service fund.

Note 7 - Leases

Capital leases

The City has a capital lease for a backhoe. The future minimum lease payments are as follows:

<u>Year ending February 28.</u>	
2009	\$ 12,519
2010	<u>12,519</u>
Total minimum lease payments	25,038
Less amount representing interest	<u>1,681</u>
Present value of minimum lease payments	<u><u>\$ 23,357</u></u>
Asset	
Machinery and equipment	\$ 54,775
Less accumulated depreciation	<u>7,303</u>
Total	<u><u>\$ 47,472</u></u>

City of Sandusky
Notes to Financial Statements
February 29, 2008

Note 8 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, Sewer Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
1980 Senior Citizens Housing Project	\$ 2,050,000	11/1/09	9.25%	\$125,000	\$ 375,000	\$ -	\$ 125,000	\$ 250,000	\$ 125,000
Installment purchase agreements									
1999 Runway Rehabilitation Project	40,000	7/14/09	4.50%	4,629 - 4,839	13,898	-	4,430	9,468	4,629
2001 Runway Rehabilitation Project	17,898	6/8/11	4.60%	1,898 - 2,165	9,943	-	1,816	8,127	1,898
2003 Vacant Land	225,000	3/4/18	4.55%	12,869 -20,113	191,163	-	12,330	178,833	12,869
2003 John Deere Tractor	72,855	3/20/07	4.33%	15,175	15,175	-	15,175	-	-
2004 Michigan Economic Dev. Corporation	384,152	11/1/13	5.00%	8,191 - 10,765	248,474	-	31,765	216,709	33,383
2006 Vacant Land	300,000	6/30/21	4.69%	14,898 - 27,032	300,000	-	14,230	285,770	14,898
Total bonds and notes payable					1,153,653	-	204,746	948,907	192,677
Capital leases									
2005 Ford Crown Victoria	21,321	6/13/07	5.60%	7,107	7,107	-	7,107	-	-
Compensated absences									
Internal service fund obligations					163,270	3,665	-	166,935	-
Capital lease - Backhoe	54,775	2/28/10	6.00%	11,496 - 11,861	33,830	-	10,473	23,357	11,496
Total governmental activities					\$ 1,357,860	\$ 3,665	\$ 222,326	\$ 1,139,199	\$ 204,173

City of Sandusky
Notes to Financial Statements
February 29, 2008

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities									
Bonds and notes payable									
General obligation bonds									
Water Supply System Revenue Bonds, Series 2000	\$ 650,000	11/1/17	5.20%-5.80%	\$35,000 - \$50,000	\$ 475,000	\$ -	\$ 35,000	\$ 440,000	\$ 35,000
Water Supply System Revenue Bonds, Series 2001	750,000	11/1/21	4.50%-5.40%	30,000 - 75,000	710,000	-	25,000	685,000	30,000
Sewage Disposal System Revenue Bonds, Series 2005A	3,690,000	9/1/45	4.25%	39,000 - 187,000	3,654,000	-	37,000	3,617,000	39,000
Sewage Disposal System Revenue Bonds, Series 2005B	1,650,000	9/1/45	4.25%	18,000 - 87,000	1,633,000	-	18,000	1,615,000	18,000
Water Supply System Junior Lien Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	1,326,000	-	20,000	1,306,000	20,000
Water Supply System Junior Lien Revenue Bonds, Series 2005B	54,000	11/1/45	4.25%	750 - 2,300	53,250	-	750	52,500	750
Less deferred amounts									
For issuance discounts					(14,744)	-	(1,136)	(13,608)	(1,136)
Total bonds payable					7,836,506	-	134,614	7,701,892	141,614
Compensated absences					141,377	-	1,614	139,763	-
Total business-type activities					<u>\$ 7,977,883</u>	<u>\$ -</u>	<u>\$ 136,228</u>	<u>\$ 7,841,655</u>	<u>\$ 141,614</u>

City of Sandusky
Notes to Financial Statements
February 29, 2008

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 192,677	\$ 55,702	\$ 142,750	338,110
2010	195,982	40,838	149,750	331,496
2011	69,367	25,832	152,750	324,648
2012	72,740	22,452	161,000	317,640
2013	74,004	18,922	169,100	310,057
2014-2018	222,946	56,393	962,700	1,422,952
2019-2023	121,191	13,037	929,150	1,194,954
2024-2028	-	-	739,750	1,011,930
2029-2033	-	-	887,750	843,216
2034-2038	-	-	1,097,150	637,604
2039-2043	-	-	1,355,050	383,486
2044-2046	-	-	968,600	83,742
	<u>\$ 948,907</u>	<u>\$ 233,176</u>	<u>\$ 7,715,500</u>	<u>\$ 7,199,835</u>

Note 9 - Risk Management

The government is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other municipalities to form the Michigan Risk Management Authority (MMRMA), a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$3 million for each insured event. The MMRMA provides general liability, casualty and fleet coverage to the City.

The City is also a member of the Michigan Municipal League (MML). The City contracts with Meadowbrook Insurance through the MML for its worker's compensation and airport insurance coverage. The City

continues to carry commercial insurance for employee health coverage through Blue Cross Blue Shield of Michigan.

Note 10 - Employee Retirement and Benefit Systems

The City of Sandusky maintains two defined benefit plans. Two former employees still receive benefits from plans administered by Midwest Pension Actuaries (MPA). The MERS administers all current eligible employees and all retired employees not administered by Midwest Pension Actuaries, Inc. As such, the City's financial statements reflect the activity of the pension fund as administered by Midwest Pension Actuaries, Inc. The following is a summary of both defined benefit pension plans.

Plan as administered by Midwest Pension Actuaries, Inc.

The cost and market value of the pension fund investments administered by MPA at February 29, 2008 are as follows:

	<u>Cost</u>	<u>Market</u>
Scudder Investments	\$ 35,992	\$ 35,992
American Life Annuity	<u>8,082</u>	<u>8,082</u>
Total	<u>\$ 44,074</u>	<u>\$ 44,074</u>

Plan as administered by Michigan Municipal Employees' Retirement System

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

City of Sandusky
Notes to Financial Statements
February 29, 2008

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 3.00%, 5.00% and 3.00% of gross wages for general employees, police and DPW and WWTP union, respectively.

Annual pension costs – For year ended 2008, the government's annual pension cost of \$152,996 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8% investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 3% - 4% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	2006	2005	2004
Annual pension cost	\$ 149,509	\$ 142,324	\$ 146,936
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,363,816	1,183,736	1,040,830
Actuarial accrued liabilities	3,231,241	3,014,907	2,856,605
Unfunded AAL	1,867,425	1,831,171	1,815,775
Funded ratio	42.0%	39.0%	36%
Covered payroll	947,463	910,409	909,062
UAAL as a percentage of covered payroll	197%	201%	200%

Note 11 - Post Employment Benefits

In addition to the pension benefits described in the preceding note, the City provides a fixed amount in post-retirement health care benefits per month. Contracts identify specific requirements. There

are no participants receiving benefits, and accordingly there were no expenditures for the fiscal year.

As permitted by the Michigan Department of Treasury, effective March 1, 2002, the City established an Employee Sick Pay Fund and Employee Health Care Fund. The Employee Sick Pay Fund is used to account for money set-aside for employee's sick pay. The Employee Health Care Fund is for the accumulation and investment of funds to provide for the funding of health care benefits to retired employees and their beneficiaries.

Note 12 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Note 13 - Upcoming Accounting And Reporting Changes

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending February 28, 2010.

City of Sandusky
Notes to Financial Statements
February 29, 2008

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial statements with periods ending after February 29, 2008. However, measurement is required as of the beginning of the period.

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 29, 2008

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 1,410,140	\$ 1,410,140	\$ 1,396,849	\$ (13,291)
Penalties and interest	1,500	1,500	2,909	1,409
Licenses and permits	3,100	3,100	3,457	357
Federal grants	-	-	167,935	167,935
State revenue sharing	293,850	293,850	284,765	(9,085)
State grants	1,200	1,200	1,378	178
Local contributions	3,500	3,500	4,000	500
Charges for services	144,050	144,050	148,407	4,357
Fines and forfeitures	250	250	378	128
Interest income	57,500	57,500	87,446	29,946
Rental income	18,088	18,088	18,168	80
Other revenue	14,200	14,200	25,765	11,565
Sale of fixed assets	-	-	208	208
Transfer in	79,800	79,800	-	(79,800)
Total revenues	<u>2,027,178</u>	<u>2,027,178</u>	<u>2,141,665</u>	<u>114,487</u>
Expenditures				
General government				
Township board	15,000	15,000	13,051	(1,949)
Manager	67,270	67,270	57,931	(9,339)
Clerk	79,290	79,290	79,236	(54)
Board of review	1,700	1,700	1,476	(224)
Treasurer	16,890	16,890	16,501	(389)
Assessor	17,180	17,180	17,200	20
Elections	2,900	2,900	2,622	(278)
Buildings and grounds	229,465	229,465	390,915	161,450
Cemetery	50,410	50,410	45,485	(4,925)
Total general government	<u>480,105</u>	<u>480,105</u>	<u>624,417</u>	<u>144,312</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 29, 2008

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Public safety				
Police	\$ 509,475	\$ 509,475	\$ 489,299	\$ (20,176)
Fire department	84,470	84,470	82,057	(2,413)
Building inspection department	6,460	6,460	6,459	(1)
Total public safety	<u>600,405</u>	<u>600,405</u>	<u>577,815</u>	<u>(22,590)</u>
Public works				
Department of public works	236,410	236,410	220,689	(15,721)
Sidewalks	5,275	5,275	5,259	(16)
Street lighting	75,600	75,600	63,929	(11,671)
Sanitary land fill	97,400	97,400	104,308	6,908
Total public works	<u>414,685</u>	<u>414,685</u>	<u>394,185</u>	<u>(20,500)</u>
Community and economic development				
Planning	2,400	2,400	2,342	(58)
Zoning	900	900	169	(731)
Total community and economic development	<u>3,300</u>	<u>3,300</u>	<u>2,511</u>	<u>(789)</u>
Recreation and culture				
Parks and recreation	126,650	126,650	107,699	(18,951)
Capital outlay	124,800	124,800	98,243	(26,557)
Debt service				
Principal retirement	58,400	58,400	65,432	7,032
Interest and fiscal charges	34,620	34,620	34,602	(18)
Total debt service	<u>93,020</u>	<u>93,020</u>	<u>100,034</u>	<u>7,014</u>
Transfers out	184,213	184,213	448,286	264,073
Total expenditures	<u>2,027,178</u>	<u>2,027,178</u>	<u>2,353,190</u>	<u>326,012</u>
Deficiency of revenues over expenditures	-	-	(211,525)	(211,525)
Fund balance - beginning of year	1,338,786	1,338,786	1,338,786	-
Fund balance - end of year	<u>\$ 1,338,786</u>	<u>\$ 1,338,786</u>	<u>\$ 1,127,261</u>	<u>\$ (211,525)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state grants	\$ 463,510	\$ 463,510	\$ 468,167	\$ 4,657
Local contributions	93,000	93,000	91,838	(1,162)
Interest income	7,000	7,000	14,371	7,371
Other revenue	5,000	5,000	5,096	96
Total revenues	<u>568,510</u>	<u>568,510</u>	<u>579,472</u>	<u>10,962</u>
Expenditures				
Current				
Public works	151,295	151,295	123,263	(28,032)
Capital outlay	381,000	381,000	380,546	(454)
Transfers out	36,215	36,215	35,250	(965)
Total expenditures	<u>568,510</u>	<u>568,510</u>	<u>539,059</u>	<u>(29,451)</u>
Excess of revenues over expenditures	-	-	40,413	40,413
Fund balance - beginning of year	<u>275,420</u>	<u>275,420</u>	<u>275,420</u>	-
Fund balance - end of year	<u><u>\$ 275,420</u></u>	<u><u>\$ 275,420</u></u>	<u><u>\$ 315,833</u></u>	<u><u>\$ 40,413</u></u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other state grants	\$ 60,000	\$ 60,000	\$ 56,453	\$ (3,547)
Local contributions	73,000	73,000	71,801	(1,199)
Interest income	5,000	5,000	8,079	3,079
Transfers in	<u>124,140</u>	<u>124,140</u>	<u>124,140</u>	<u>-</u>
Total revenues	<u>262,140</u>	<u>262,140</u>	<u>260,473</u>	<u>(1,667)</u>
Expenditures				
Current				
Public works	189,560	189,560	155,725	(33,835)
Capital outlay	70,000	70,000	71,359	1,359
Transfers out	<u>1,080</u>	<u>1,080</u>	<u>-</u>	<u>(1,080)</u>
Total expenditures	<u>260,640</u>	<u>260,640</u>	<u>227,084</u>	<u>(33,556)</u>
Excess of revenues over expenditures	1,500	1,500	33,389	31,889
Fund balance - beginning of year	<u>58,742</u>	<u>58,742</u>	<u>58,742</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 60,242</u></u>	<u><u>\$ 60,242</u></u>	<u><u>\$ 92,131</u></u>	<u><u>\$ 31,889</u></u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Senior Citizens Housing
Year Ended February 29, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal grants	\$ 249,000	\$ 249,000	\$ 251,509	\$ 2,509
Interest income	8,000	8,000	6,543	(1,457)
Rental income	<u>150,500</u>	<u>150,500</u>	<u>147,513</u>	<u>(2,987)</u>
Total revenues	<u>407,500</u>	<u>407,500</u>	<u>405,565</u>	<u>(1,935)</u>
Expenditures				
Current				
Health and welfare	281,223	281,223	295,451	14,228
Transfers out	<u>161,680</u>	<u>161,680</u>	<u>159,688</u>	<u>(1,992)</u>
Total expenditures	<u>442,903</u>	<u>442,903</u>	<u>455,139</u>	<u>12,236</u>
Deficiency of revenues over expenditures	(35,403)	(35,403)	(49,574)	(14,171)
Fund balance - beginning of year	<u>122,327</u>	<u>122,327</u>	<u>122,327</u>	<u>-</u>
Fund balance - end of year	<u>\$ 86,924</u>	<u>\$ 86,924</u>	<u>\$ 72,753</u>	<u>\$ (14,171)</u>

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 29, 2008

	Special Revenue Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Airport	Cemetery	
Assets			
Cash and cash equivalents	\$ 21,163	\$ 76,150	\$ 97,313
Liabilities			
Accounts payable	\$ 2,564	\$ -	\$ 2,564
Accrued and other liabilities	294	-	294
Total liabilities	2,858	-	2,858
Fund balances			
Reserved for:			
Perpetual care	-	76,150	76,150
Unreserved			
Undesignated	18,305	-	18,305
Total fund balances	18,305	76,150	94,455
Total liabilities and fund balances	\$ 21,163	\$ 76,150	\$ 97,313

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended February 29, 2008

	Special Revenue Fund	Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Airport	1980 G.O. Senior Citizens Housing Project	Cemetery	
Revenues				
Charges for services	\$ 22,703	\$ -	\$ -	\$ 22,703
Interest income	1,329	-	3,412	4,741
Rental income	21,430	-	-	21,430
Other revenue	13	-	-	13
Total revenues	45,475	-	3,412	48,887
Expenditures				
Current				
Public works	58,470	-	-	58,470
Capital outlay	1,051	-	-	1,051
Debt service				
Principal retirement	21,421	125,000	-	146,421
Interest and fiscal charges	1,740	34,688	-	36,428
Total expenditures	82,682	159,688	-	242,370
Excess (deficiency) of revenues over expenditures	(37,207)	(159,688)	3,412	(193,483)
Other financing sources				
Transfers in	47,435	159,688	560	207,683
Net change in fund balance	10,228	-	3,972	14,200
Fund balance - beginning of year	8,077	-	72,178	80,255
Fund balance - end of year	\$ 18,305	\$ -	\$ 76,150	\$ 94,455

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Governmental Activities						
1980 General Obligation Senior Citizens	9.25%	11/1/08	\$ 125,000	\$ 11,562	\$ 11,562	\$ 148,124
Housing Project Bonds	9.25%	11/1/09	125,000	5,781	5,781	136,562
Amount of issue - \$2,050,000			<u>\$ 250,000</u>	<u>\$ 17,343</u>	<u>\$ 17,343</u>	<u>\$ 284,686</u>
1999 Installment Loan - Runway	4.50%	7/14/08	\$ 4,629	\$ 426	\$ -	\$ 5,055
Rehabilitation Project	4.50%	7/14/09	4,839	218	-	5,057
Amount of issue - \$40,000			<u>\$ 9,468</u>	<u>\$ 644</u>	<u>\$ -</u>	<u>\$ 10,112</u>
2001 Installment Loan - Runway	4.60%	6/8/08	\$ 1,898	\$ 375	\$ -	\$ 2,273
Rehabilitation Project	4.60%	6/8/09	1,986	287	-	2,273
Amount of issue - \$17,898	4.60%	6/8/10	2,078	195	-	2,273
	4.60%	6/8/11	2,165	100	-	2,265
			<u>\$ 8,127</u>	<u>\$ 957</u>	<u>\$ -</u>	<u>\$ 9,084</u>
2003 Installment Loan - Vacant Land	4.55%	3/4/08	\$ 12,869	\$ 8,159	\$ -	\$ 21,028
Amount of issue - \$225,000	4.55%	3/4/09	13,477	7,551	-	21,028
	4.55%	3/4/10	14,090	6,938	-	21,028
	4.55%	3/4/11	14,731	6,297	-	21,028
	4.55%	3/4/12	15,386	5,642	-	21,028
	4.55%	3/4/13	16,101	4,927	-	21,028
	4.55%	3/4/14	16,834	4,194	-	21,028
	4.55%	3/4/15	17,600	3,428	-	21,028
	4.55%	3/4/16	18,394	2,634	-	21,028
	4.55%	3/4/17	19,238	1,790	-	21,028
	4.55%	3/4/18	20,113	915	-	21,028
			<u>\$ 178,833</u>	<u>\$ 52,475</u>	<u>\$ -</u>	<u>\$ 231,308</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2004 Michigan Economic Dev. Corporation	5.00%	5/1/08	\$ 8,191	\$ 2,709	\$ -	\$ 10,900
Amount of issue - \$384,152	5.00%	8/1/08	8,293	2,606	-	10,899
	5.00%	11/1/08	8,397	2,503	-	10,900
	5.00%	2/1/09	8,502	2,398	-	10,900
	5.00%	5/1/09	8,608	2,292	-	10,900
	5.00%	8/1/09	8,716	2,184	-	10,900
	5.00%	11/1/09	8,825	2,075	-	10,900
	5.00%	2/1/10	8,935	1,965	-	10,900
	5.00%	5/1/10	9,047	1,853	-	10,900
	5.00%	8/1/10	9,160	1,740	-	10,900
	5.00%	11/1/10	9,274	1,624	-	10,898
	5.00%	2/1/11	9,390	1,510	-	10,900
	5.00%	5/1/11	9,508	1,392	-	10,900
	5.00%	8/1/11	9,626	1,273	-	10,899
	5.00%	11/1/11	9,747	1,153	-	10,900
	5.00%	2/1/12	9,869	1,031	-	10,900
	5.00%	5/1/12	9,992	908	-	10,900
	5.00%	8/1/12	10,117	783	-	10,900
	5.00%	11/1/12	10,243	656	-	10,899
	5.00%	2/1/13	10,371	528	-	10,899
	5.00%	5/1/13	10,501	399	-	10,900
	5.00%	8/1/13	10,632	267	-	10,899
	5.00%	11/1/13	10,765	135	-	10,900
			<u>\$ 216,709</u>	<u>\$ 33,984</u>	<u>\$ -</u>	<u>\$ 250,693</u>
2006 Installment Loan - Vacant Land	4.69%	6/30/08	\$ 14,898	\$ 13,402	\$ -	\$ 28,300
Amount of issue - \$300,000	4.69%	6/30/09	15,596	12,704	-	28,300
	4.69%	6/30/10	16,328	11,972	-	28,300
	4.69%	6/30/11	17,094	11,206	-	28,300
	4.69%	6/30/12	17,895	10,405	-	28,300
	4.69%	6/30/13	18,735	9,565	-	28,300
	4.69%	6/30/14	19,613	8,687	-	28,300
	4.69%	6/30/15	20,533	7,767	-	28,300
	4.69%	6/30/16	21,496	6,804	-	28,300
	4.69%	6/30/17	22,504	5,796	-	28,300
	4.69%	6/30/18	23,560	4,740	-	28,300
	4.69%	6/30/19	24,665	3,635	-	28,300
	4.69%	6/30/20	25,821	2,479	-	28,300
	4.69%	6/30/21	27,032	1,268	-	28,300
			<u>\$ 285,770</u>	<u>\$ 110,430</u>	<u>\$ -</u>	<u>\$ 396,200</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Business-type Activities						
Water Supply System Revenue	5.20%	11/1/08	\$ 35,000	\$ 11,271	\$ 12,181	\$ 58,452
Bonds, Series 2000	5.25%	11/1/09	40,000	10,221	11,271	61,492
Amount of issue - \$650,000	5.30%	11/1/10	40,000	9,161	10,221	59,382
	5.40%	11/1/11	40,000	8,081	9,161	57,242
	5.50%	11/1/12	45,000	6,844	8,081	59,925
	5.60%	11/1/13	45,000	5,584	6,844	57,428
	5.65%	11/1/14	45,000	4,312	5,584	54,896
	5.70%	11/1/15	50,000	2,888	4,312	57,200
	5.75%	11/1/16	50,000	1,450	2,888	54,338
	5.80%	11/1/17	50,000	-	1,450	51,450
			<u>\$ 440,000</u>	<u>\$ 59,812</u>	<u>\$ 71,993</u>	<u>\$ 571,805</u>
 Water Supply System Revenue	4.50%	11/1/08	\$ 30,000	\$ 17,280	\$ 17,280	\$ 64,560
Bonds, Series 2001	4.50%	11/1/09	30,000	16,605	16,605	63,210
Amount of issue - \$750,000	4.50%	11/1/10	30,000	15,930	15,930	61,860
	4.60%	11/1/11	35,000	15,255	15,255	65,510
	4.70%	11/1/12	35,000	14,450	14,450	63,900
	4.80%	11/1/13	40,000	13,628	13,628	67,256
	4.90%	11/1/14	40,000	12,668	12,668	65,336
	5.00%	11/1/15	45,000	11,688	11,688	68,376
	5.10%	11/1/16	50,000	10,562	10,562	71,124
	5.20%	11/1/17	50,000	9,287	9,287	68,574
	5.25%	11/1/18	75,000	7,988	7,988	90,976
	5.30%	11/1/19	75,000	6,019	6,019	87,038
	5.35%	11/1/20	75,000	4,031	4,031	83,062
	5.40%	11/1/21	75,000	2,025	2,025	79,050
			<u>\$ 685,000</u>	<u>\$ 157,416</u>	<u>\$ 157,416</u>	<u>\$ 999,832</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Sewage Disposal System Revenue	4.25%	9/1/2008	\$ 39,000	\$ 76,861	\$ 76,861	\$ 192,722
Bonds Series 2005 A	4.25%	9/1/2009	40,000	76,033	76,033	192,066
Amount of issue - \$3,690,000	4.25%	9/1/2010	42,000	75,183	75,183	192,366
	4.25%	9/1/2011	44,000	74,290	74,290	192,580
	4.25%	9/1/2012	46,000	73,355	73,355	192,710
	4.25%	9/1/2013	48,000	72,378	72,378	192,756
	4.25%	9/1/2014	50,000	71,358	71,358	192,716
	4.25%	9/1/2015	52,000	70,295	70,295	192,590
	4.25%	9/1/2016	55,000	69,190	69,190	193,380
	4.25%	9/1/2017	57,000	68,021	68,021	193,042
	4.25%	9/1/2018	59,000	66,810	66,810	192,620
	4.25%	9/1/2019	62,000	65,556	65,556	193,112
	4.25%	9/1/2020	65,000	64,239	64,239	193,478
	4.25%	9/1/2021	68,000	62,858	62,858	193,716
	4.25%	9/1/2022	71,000	61,413	61,413	193,826
	4.25%	9/1/2023	74,000	59,904	59,904	193,808
	4.25%	9/1/2024	77,000	58,331	58,331	193,662
	4.25%	9/1/2025	80,000	56,695	56,695	193,390
	4.25%	9/1/2026	84,000	54,995	54,995	193,990
	4.25%	9/1/2027	87,000	53,210	53,210	193,420
	4.25%	9/1/2028	91,000	51,361	51,361	193,722
	4.25%	9/1/2029	95,000	49,428	49,428	193,856
	4.25%	9/1/2030	99,000	47,409	47,409	193,818
	4.25%	9/1/2031	104,000	45,305	45,305	194,610
	4.25%	9/1/2032	108,000	43,095	43,095	194,190
	4.25%	9/1/2033	113,000	40,800	40,800	194,600
	4.25%	9/1/2034	118,000	38,399	38,399	194,798
	4.25%	9/1/2035	123,000	35,891	35,891	194,782
	4.25%	9/1/2036	128,000	33,278	33,278	194,556
	4.25%	9/1/2037	134,000	30,558	30,558	195,116
	4.25%	9/1/2038	140,000	27,710	27,710	195,420
	4.25%	9/1/2039	146,000	24,735	24,735	195,470
	4.25%	9/1/2040	152,000	21,633	21,633	195,266
	4.25%	9/1/2041	159,000	18,403	18,403	195,806
	4.25%	9/1/2042	166,000	15,024	15,024	196,048
	4.25%	9/1/2043	173,000	11,496	11,496	195,992
	4.25%	9/1/2044	181,000	7,820	7,820	196,640
	4.25%	9/1/2045	187,000	3,974	3,974	194,948
			<u>\$ 3,617,000</u>	<u>\$ 1,877,294</u>	<u>\$ 1,877,294</u>	<u>\$ 7,371,588</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Sewage Disposal System Revenue	4.25%	9/1/2008	\$ 18,000	\$ 34,319	\$ 34,319	\$ 86,638
Bonds Series 2005 B	4.25%	9/1/2009	19,000	33,936	33,936	86,872
Amount of issue - \$1,650,000	4.25%	9/1/2010	20,000	33,533	33,533	87,066
	4.25%	9/1/2011	21,000	33,108	33,108	87,216
	4.25%	9/1/2012	22,000	32,661	32,661	87,322
	4.25%	9/1/2013	22,000	32,194	32,194	86,388
	4.25%	9/1/2014	23,000	31,726	31,726	86,452
	4.25%	9/1/2015	24,000	31,238	31,238	86,476
	4.25%	9/1/2016	25,000	30,728	30,728	86,456
	4.25%	9/1/2017	26,000	30,196	30,196	86,392
	4.25%	9/1/2018	27,000	29,644	29,644	86,288
	4.25%	9/1/2019	28,000	29,070	29,070	86,140
	4.25%	9/1/2020	30,000	28,475	28,475	86,950
	4.25%	9/1/2021	31,000	27,838	27,838	86,676
	4.25%	9/1/2022	32,000	27,179	27,179	86,358
	4.25%	9/1/2023	33,000	26,499	26,499	85,998
	4.25%	9/1/2024	35,000	25,798	25,798	86,596
	4.25%	9/1/2025	36,000	25,054	25,054	86,108
	4.25%	9/1/2026	38,000	24,289	24,289	86,578
	4.25%	9/1/2027	39,000	23,481	23,481	85,962
	4.25%	9/1/2028	41,000	22,653	22,653	86,306
	4.25%	9/1/2029	43,000	21,781	21,781	86,562
	4.25%	9/1/2030	44,000	20,868	20,868	85,736
	4.25%	9/1/2031	46,000	19,933	19,933	85,866
	4.25%	9/1/2032	48,000	18,955	18,955	85,910
	4.25%	9/1/2033	50,000	17,935	17,935	85,870
	4.25%	9/1/2034	52,000	16,873	16,873	85,746
	4.25%	9/1/2035	54,000	15,768	15,768	85,536
	4.25%	9/1/2036	57,000	14,620	14,620	86,240
	4.25%	9/1/2037	59,000	13,409	13,409	85,818
	4.25%	9/1/2038	61,000	12,155	12,155	85,310
	4.25%	9/1/2039	64,000	10,859	10,859	85,718
	4.25%	9/1/2040	66,000	9,499	9,499	84,998
	4.25%	9/1/2041	69,000	8,096	8,096	85,192
	4.25%	9/1/2042	72,000	6,630	6,630	85,260
	4.25%	9/1/2043	75,000	5,100	5,100	85,200
	4.25%	9/1/2044	78,000	3,506	3,506	85,012
	4.25%	9/1/2045	87,000	1,849	1,849	90,698
			<u>\$ 1,615,000</u>	<u>\$ 831,455</u>	<u>\$ 831,455</u>	<u>\$ 3,277,910</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Water Supply System Junior Lien	4.25%	11/1/2008	\$ 20,000	\$ 27,753	\$ 27,753	\$ 75,506
Revenue Bonds Series 2005 A	4.25%	11/1/2009	20,000	27,328	27,328	74,656
Amount of issue - \$1,346,000	4.25%	11/1/2010	20,000	26,903	26,903	73,806
	4.25%	11/1/2011	20,000	26,478	26,478	72,956
	4.25%	11/1/2012	20,000	26,053	26,053	72,106
	4.25%	11/1/2013	20,000	25,628	25,628	71,256
	4.25%	11/1/2014	20,000	25,203	25,203	70,406
	4.25%	11/1/2015	20,000	24,778	24,778	69,556
	4.25%	11/1/2016	25,000	24,353	24,353	73,706
	4.25%	11/1/2017	25,000	23,821	23,821	72,642
	4.25%	11/1/2018	30,000	23,290	23,290	76,580
	4.25%	11/1/2019	30,000	22,653	22,653	75,306
	4.25%	11/1/2020	30,000	22,015	22,015	74,030
	4.25%	11/1/2021	30,000	21,378	21,378	72,756
	4.25%	11/1/2022	30,000	20,740	20,740	71,480
	4.25%	11/1/2023	30,000	20,103	20,103	70,206
	4.25%	11/1/2024	30,000	19,465	19,465	68,930
	4.25%	11/1/2025	30,000	18,828	18,828	67,656
	4.25%	11/1/2026	30,000	18,190	18,190	66,380
	4.25%	11/1/2027	30,000	17,553	17,553	65,106
	4.25%	11/1/2028	30,000	16,915	16,915	63,830
	4.25%	11/1/2029	31,000	16,278	16,278	63,556
	4.25%	11/1/2030	32,000	15,619	15,619	63,238
	4.25%	11/1/2031	34,000	14,939	14,939	63,878
	4.25%	11/1/2032	35,000	14,216	14,216	63,432
	4.25%	11/1/2033	37,000	13,473	13,473	63,946
	4.25%	11/1/2034	39,000	12,686	12,686	64,372
	4.25%	11/1/2035	40,000	11,858	11,858	63,716
	4.25%	11/1/2036	42,000	11,008	11,008	64,016
	4.25%	11/1/2037	44,000	10,115	10,115	64,230
	4.25%	11/1/2038	46,000	9,180	9,180	64,360
	4.25%	11/1/2039	48,000	8,203	8,203	64,406
	4.25%	11/1/2040	50,000	7,183	7,183	64,366
	4.25%	11/1/2041	52,000	6,120	6,120	64,240
	4.25%	11/1/2042	55,000	5,015	5,015	65,030
	4.25%	11/1/2043	57,000	3,846	3,846	64,692
	4.25%	11/1/2044	60,000	2,635	2,635	65,270
	4.25%	11/1/2045	64,000	1,360	1,360	66,720
			<u>\$ 1,306,000</u>	<u>\$ 643,162</u>	<u>\$ 643,162</u>	<u>\$ 2,592,324</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Water Supply System Junior Lien	4.25%	11/1/2008	\$ 750	\$ 1,116	\$ 1,116	\$ 2,982
Revenue Bonds Series 2005 B	4.25%	11/1/2009	750	1,100	1,100	2,950
Amount of issue - \$54,000	4.25%	11/1/2010	750	1,084	1,084	2,918
	4.25%	11/1/2011	1,000	1,068	1,068	3,136
	4.25%	11/1/2012	1,100	1,047	1,047	3,194
	4.25%	11/1/2013	1,100	1,023	1,023	3,146
	4.25%	11/1/2014	1,100	1,000	1,000	3,100
	4.25%	11/1/2015	1,100	976	976	3,052
	4.25%	11/1/2016	1,200	953	953	3,106
	4.25%	11/1/2017	1,200	928	928	3,056
	4.25%	11/1/2018	1,200	902	902	3,004
	4.25%	11/1/2019	1,200	877	877	2,954
	4.25%	11/1/2020	1,200	851	851	2,902
	4.25%	11/1/2021	1,200	826	826	2,852
	4.25%	11/1/2022	1,350	800	800	2,950
	4.25%	11/1/2023	1,350	771	771	2,892
	4.25%	11/1/2024	1,350	743	743	2,836
	4.25%	11/1/2025	1,350	714	714	2,778
	4.25%	11/1/2026	1,350	685	685	2,720
	4.25%	11/1/2027	1,350	657	657	2,664
	4.25%	11/1/2028	1,350	628	628	2,606
	4.25%	11/1/2029	1,350	599	599	2,548
	4.25%	11/1/2030	1,350	571	571	2,492
	4.25%	11/1/2031	1,350	542	542	2,434
	4.25%	11/1/2032	1,350	513	513	2,376
	4.25%	11/1/2033	1,350	485	485	2,320
	4.25%	11/1/2034	1,350	456	456	2,262
	4.25%	11/1/2035	1,400	427	427	2,254
	4.25%	11/1/2036	1,500	397	397	2,294
	4.25%	11/1/2037	1,550	366	366	2,282
	4.25%	11/1/2038	1,650	333	333	2,316
	4.25%	11/1/2039	1,700	298	298	2,296
	4.25%	11/1/2040	1,800	261	261	2,322
	4.25%	11/1/2041	1,900	223	223	2,346
	4.25%	11/1/2042	2,000	183	183	2,366
	4.25%	11/1/2043	2,100	140	140	2,380
	4.25%	11/1/2044	2,200	96	96	2,392
	4.25%	11/1/2045	2,300	49	49	2,398
			<u>\$ 52,500</u>	<u>\$ 24,688</u>	<u>\$ 24,688</u>	<u>\$ 101,876</u>

City of Sandusky
Sanilac County, Michigan
Single Audit Report
February 29, 2008

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Report on Schedule of Federal Awards

City Council
City of Sandusky
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky for the year ended February 29, 2008, and have issued our report thereon dated August 7, 2008. These financial statements are the responsibility of City of Sandusky's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming opinions on the basic financial statements of City of Sandusky taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
August 7, 2008

City of Sandusky
Schedule of Expenditures of Federal Awards
For the Year Ended February 29, 2008

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Waste System Grant	10.760	\$ 840,828
U.S. Department of Housing and Urban Development Lower Income Housing Assistance Program	14.856	251,509
Passed through Michigan State Housing Development Association City of Sandusky Rental Rehab Program	14.228	<u>167,935</u>
Total expenditures of Federal Awards		<u>\$ 1,260,272</u>

City of Sandusky
Notes to the Schedule of Expenditures of Federal Awards
February 29, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sandusky and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
City of Sandusky Rental Rehab Program	14.228	\$ 167,935

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

City Council
City of Sandusky
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky as of and for the year ended February 29, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Sandusky's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sandusky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Sandusky's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. The finding is noted in the schedule as 2008-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the City's management in a separate letter dated August 7, 2008.

This report is intended solely for the information and use of the city council, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
August 7, 2008

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

City Council
City of Sandusky
Sandusky, Michigan

Compliance

We have audited the compliance of the City of Sandusky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 29, 2008. The City of Sandusky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Sandusky's management. Our responsibility is to express an opinion on the City of Sandusky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sandusky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Sandusky's compliance with those requirements.

In our opinion, the City of Sandusky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 29, 2008.

Internal Control Over Compliance

The management of the City of Sandusky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sandusky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Sandusky's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, and others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
August 7, 2008

City of Sandusky
Schedule of Findings and Questioned Costs
February 29, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Waste System Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

City of Sandusky
Schedule of Findings and Questioned Costs
February 29, 2008
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2008-1 – Adjusting Journal Entries

Criteria or specific requirement: Financial statements are to be accurate and concise so users of the financial statements can make informed decisions on the best use of City finances.

Condition: Too many audit adjustments were required to be made.

Cause: A detailed review of the general ledger was not performed to determine which accounts were out of line. In addition, several year-end accrual entries were not made.

Effect: Proper oversight of accounts is lost as budget to actual is not accurate.

Recommendation: We recommend a detailed review of the general ledger take place at year end and throughout the year to determine those accounts out of line. In addition, we recommend reviewing previous year's entries to make sure all accrual entries have been made and posted for the current year. This will provide users of the financial statements accurate and up-to-date information in which informed decisions can be made.

Management's response: The City will follow the recommendation of the auditor,

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended February 29, 2008.

City of Sandusky
Summary Schedule of Prior Audit Findings
February 29, 2008

SECTION IV – PRIOR AUDIT FINDINGS

Finding 2007-1 – The fixed asset listing is not updated as items are purchased.

Resolved

In the current year, the City maintained the fixed asset listing and updated it as necessary.

August 7, 2008

Members of the City Council
City of Sandusky
Sandusky, Michigan

We have completed our audit of the financial statements of City of Sandusky as of and for the year ended February 29, 2008 and have issued our report dated August 7, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated February 12, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected. The most sensitive accounting estimates and how they were derived by management are management's estimate of the unbilled water and sewer usage receivable and compensated absences are the key estimates. We evaluated the key factors and assumptions used to develop both estimates in determining whether they were reasonable in relation to the financial statements taken as a whole.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit - *None*

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments, other than those noted below.

Schedule of Unadjusted Financial Statement Misstatements
For the year ended February 29, 2008

<u>Description</u>	<u>Amount over(under)stated</u>				
	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Revenues</u>	<u>Expenses</u>
Unreconciled sewer fund receivables	<u>\$ 5,064</u>	<u>\$ -</u>	<u>\$ 5,064</u>	<u>\$ 5,064</u>	<u>\$ -</u>

Management has determined that the effects of the uncorrected misstatements are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in that report (those reports) to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of City of Sandusky as of and for the year ended February 29, 2008, we considered City of Sandusky internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report date August 7, 2008, on the financial statements of City of Sandusky. Our comments and recommendations regarding those matters are:

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Organization. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Organization completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in the procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

New Accounting and Auditing Standards

There are several new accounting and auditing standards issued that will affect the City. Most notably Government Accounting Standard Board #45 – Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions. The City currently is not paying for retiree post retirement benefits, although certain contracts may require them to do so in the future. Under this new standard the City would have to begin recognizing this obligation in the 2010 fiscal year. We encourage the City to calculate the liability now, so that you have time to analyze the impact of the estimated liability on the City's finances.

Status of Prior Year Comments

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Password protection on computer used for logging receipts	X		
City Council receiving a complete listing of all expenditures	X		
No review of journal entries made by Finance Director	X		
There is no formal back up procedures for the computer system	X		
Implement procedures to cross train employees in using the general ledger in the event of the Finance Directors absence	X		
Recording of expenditures and revenue for the MDOT airport renovation project	X		